

## TRANSCRIPT

### FEDERAL OPEN MARKET COMMITTEE CONFERENCE CALL

March 1, 1993

#### Prefatory Note

This transcript has been produced from the original raw transcript in the FOMC Secretariat's files. The Secretariat has lightly edited the original to facilitate the reader's understanding. Where one or more words were missed or garbled in the transcription, the notation "unintelligible" has been inserted. In some instances, words have been added in brackets to complete a speaker's thought or to correct an obvious transcription error or misstatement.

Errors undoubtedly remain. The raw transcript was not fully edited for accuracy at the time it was produced because it was intended only as an aid to the Secretariat in preparing the record of the Committee's policy actions. The edited transcript has not been reviewed by present or past members of the Committee.

Aside from the editing to facilitate the reader's understanding, the only deletions involve a very small amount of confidential information regarding foreign central banks, businesses, and persons that are identified or identifiable. Deleted passages are indicated by gaps in the text. All information deleted in this manner is exempt from disclosure under applicable provisions of the Freedom of Information Act.

**FEDERAL OPEN MARKET COMMITTEE  
CONFERENCE CALL  
March 1, 1993**

**PRESENT:** Mr. Greenspan, Chairman  
Mr. Corrigan, Vice Chairman  
Mr. Angell  
Mr. Boehne  
Mr. Keehn  
Mr. Kelley  
Mr. LaWare  
Mr. McTeer  
Mr. Mullins  
Ms. Phillips  
Mr. Stern

Messrs. Broaddus and Jordan, Alternate Members of the Federal Open  
Market Committee

Messrs. Hoenig and Syron, Presidents of the Federal Reserve Banks of  
Kansas City and Boston respectively

Mr. Bernard, Deputy Secretary  
Mr. Coyne, Assistant Secretary  
Mr. Mattingly, General Counsel  
Mr. Prell, Economist  
Mr. Truman, Economist

Messrs. Lang, Lindsey, Promisel, Rolnick, Rosenblum, Scheld,  
Simpson, and Slifman, Associate Economists

Mr. McDonough, Manager of the System Open Market Account  
Ms. Greene, Deputy Manager for Foreign Operations  
Ms. Lovett, Deputy Manager for Domestic Operations

Mr. Stockton, Associate Director, Division of Research and Statistics, Board of  
Governors  
Mr. Winn, Assistant to the Board, Office of Board Members, Board of Governors

Messrs. Barron and Guynn, First Vice Presidents, Federal Reserve Banks of San  
Francisco and Atlanta respectively

Messrs. Beebe, J. Davis, T. Davis, Dewald, and Ms. Tschinkel, Senior Vice  
Presidents, Federal Reserve Bank of San Francisco, Cleveland, Kansas  
City, St. Louis, and Atlanta respectively

Transcript of Federal Open Market Committee Conference Call of  
March 1, 1993

CHAIRMAN GREENSPAN. Good afternoon, everyone. This is an informational FOMC meeting and there are two topics I'd like to discuss. First, especially in view of the [Reserve Bank] Presidents' meetings on the Hill with the Senate Banking Committee on March 10, I thought I would take a few minutes to review my impressions of ten hours worth of testimony up there in the last few days. Secondly, I plan to report, as I usually do, on the G-7 meeting which just transpired in London over the weekend.

On the first issue, the thing I found really quite startling when I went up to the Hill, having prepared in great detail in defense of monetary policy against various attacks that might occur, is that it became evident very quickly that the focus was not going to be that. The first indication I had was that prior to my first presentation at the Senate Banking Committee hearing on Friday I had a preliminary very pleasant discussion with both Messrs. Riegle and Sarbanes. It was evident that the report that morning in the Washington Post that there was likely to be a very sharp upward revision in the gross domestic product for the fourth quarter changed the basic tone of their general approach. We discussed that before the actual Committee hearing began. I indicated to them that the 5 percent increase of John Berry's story might be a little high but that it's pretty clear that there was a major upward revision. And I said that while I thought the first quarter would obviously be lower than that, the economy was nonetheless moving ahead. My impression was that a good part of the concern they had relative to M2 and the targets probably was not going to emerge, but I was a bit surprised that it didn't come up at all. The early clue that we knew something was occurring went back to the previous Joint Economic Committee hearing a couple weeks earlier in which Sarbanes at the very end of the hearing in a colloquy with Jim Tobin began to raise questions as to whether there should be other than monetary targets with which the Federal Reserve basically should be communicating its goals to the Congress. This struck me--indeed, I think it struck a number of people around here--as an indication that the M2 targeting question had ceased to become the hot potato that it had been early on. But I was not prepared for not having a single question that I recall on monetary policy.

The whole focus, as I think most of you know, was on fiscal policy. And to the best of my recollection over the ten hours I didn't veer at all from the general philosophy that I indicated at our previous FOMC [conference call] nor the text, which we altered on the basis of certain of the suggestions some of you made. I think in the end I was only partially successful in making the [distinction] of stipulating that I commended the President for starting the process without getting into the politics of the details of his program. I think it was reasonably well handled by some of the media. The New York Times, however, produced a headline which I think has created a view on the part of some of the senators that I've actually stipulated that I endorsed the program. Unfortunately that is difficult to get around every once in a while when the press does that.

The importance of all of this in my judgment is that I think the March 10 meeting is not going to be a very specific monetary

policy bashing of the twelve Bank Presidents. I think it's going to be more [an effort] to get either support or opposition to the President's program. And the problem that I think will occur is that if anybody tries to answer [with] substance you will either get to the point where you disagree, which is very clearly a problem, or you will agree, which is also a problem. And I just want to communicate that if it is at all possible, try to stay away from the programs as much as you can. Granted, it's not going to be wholly possible because a number of you have said things in the past--historically--about your basic views on budgetary policy. And I don't think you can or should deviate from them because if you try you can be certain that some Senate Banking Committee staffer will have [provided] a quote and they will read it to you. But aside from that, I merely wish to suggest that in my judgment the hearing will be less antagonistic than I thought when it was originally contemplated and set up. But it will be a different type of hearing. I will be very surprised if the issue of the targets comes up in any material way. I just wanted to report on that. And if anyone has any questions or clarifications on this before I get to the G-7 [meeting], I will open the floor for questions.

[Hearing none], let me go on to what was a somewhat more substantive G-7 meeting than had been expected. When the G-7 meeting was originally set up it was without any notion that negotiations of any type would be taking place. It was to be an informal get-together of G-7 [officials]. It was supposed to be a noncommuniqué, as indeed it turned out to be, G-7 meeting. As the process began, as invariably happens, everyone tried to make it a far more substantive type of discussion. Secretary Bentsen held forth for a while, discussing the President's program in some detail. As you might imagine, he got considerable support for the budget deficit endeavors, which they have been pushing in the G-7 for as long as I remember. I do not recall a Secretary of the Treasury going into a G-7 meeting with as much clout as Bentsen did going into this one because not only were we in a position of having the strongest economy--one that had been exhibiting some fairly good numbers of late with inflation essentially under control--but the rest of the world's situation as it emerged in that meeting is clearly a lot worse than I've heard any of them acknowledge previously.

the Japanese  
stipulated that their \$10.7 trillion program was in the  
works,

The Germans pretty much acknowledged that further rate reductions were likely, but

intermediate- and long-term rates--or intermediate as far as they're concerned--in real terms were very low. He went through the data, which [make that] fairly obvious, with their high [current] and expected inflation rates and their low 10-year yields. He then went on to say that most of the financing for business--I think he said 70 percent--is in this [maturity] area;

The Germans are clearly very uncomfortable. The solidarity pact is being pushed; it's not altogether evident that it's going to come out the way they would like. But neither the Japanese nor the Germans felt very comfortable about their position and really could not effectively argue that the bottom has been reached and the turn is at hand.

The French are running into significant problems. They had negative GDP in the fourth quarter and they probably are going to get another [negative number] in the current quarter. The British are seeing--at least they think they're seeing--that the worst may be over but they don't see anything turning up. They are arguing that their profit margins have held up rather well. They feel a little confident about that. And they outlined a few other issues to suggest

The Canadians spoke of an improving economy. Most interestingly, both the British and the Canadians indicated very strong productivity growth, which squared to a large extent with the type of [situation] we are looking at. I must say that after that I made an intervention in which I indicated that I thought productivity growth worldwide was clearly improving for technological reasons and that once we get through this particular dark period the longer-term potential outlook for the western industrial nations is probably better than we suspect. But in that context their short-term concerns were really quite measurable. The Canadians did venture that they expect their economy to move up. They talked about preliminary estimates of a fourth-quarter GNP [increase] in excess of 3 percent. They obviously believe that their outlook is tied very closely to ours.

The Italians obviously are in some difficulty politically but they are doing remarkably well in one respect, considering the state of affairs. The Prime Minister has just gotten through a vote of confidence,

Well, the confidence vote wasn't much different from that. And the problem that the Italians have is a sense of fragility in terms of how long they'll be able to hold it together. But they are making some improvements and, strangely, they did not seem as pessimistic as the French, although they may well be.

All in all, I came out of the meeting with a sense that a number of people were asking for American leadership. We discussed the Russian situation in some detail. Nothing much materialized out of that that looked to a resolution of either the Paris club [unintelligible], the solution of the Ukraine/Russian problem on the allocation of debt and assets, or any strong sense of initiatives as

to what we at the G-7 might do to be of assistance to Russia. There was a concern expressed by that the funding of Russia is declining in the private markets and that there is considerable consternation as to how this will all come out. But one didn't get a sense of any useful movement that would in my judgment be helpful to the resolution of the Russian situation.

There was a lot of talk in the corridors that maybe the most important thing that was done at this particular meeting was to break the continuity of communiques. And I have a suspicion that unless the G-7 has something very material to say that can be said in two or three sentences, we may find that these meetings will not have communiques. In my judgment that will make them far more useful endeavors rather than the group's debating how a particular communique should be written. Because there was no communique, I felt the actual discussion at the meeting was a good deal more open and forthcoming; that's because the ministers and the central bank governors did not have prefixed views which had been negotiated earlier for a communique. And as a consequence they did not feel as though they had to adhere to a very specific point of view. That, I think, is pretty much the substance of what went on and, obviously, [my summary] is all on a confidential basis. Does anybody have any questions?

MR. BOEHNE. Yes. Alan, [given] the conditions of most countries at the G-7, did you get the sense that they're still under considerable pressure to do something on the policy front or has [it more] to do with toughing it out through hard times?

CHAIRMAN GREENSPAN. Ed, I had the impression that they all felt that what they had to do was to stay the course. And what was most interesting in that regard was that the French Socialist Finance Minister said: Whatever it is we do, let's make certain that we do not abandon our anti-inflation posture of G-7 policy because we've gained a great deal from it and it would be a great tragedy if we threw it away. I didn't, however, get any sense of significant new initiatives on the part of any of the major players. It was more a view of staying the course, whatever that may be, not to do very much, and hope the whole thing basically works its way through.

SPEAKER(?). Alan, on your discussion about the Japanese: In terms of their opponents on this legislation, did you get a sense how real the opposition is or is this just going through the process?

CHAIRMAN GREENSPAN. I think there's not enough opposition to crater the whole thing

Having said that, I got the impression that the problem was more one of delay than of an actual breakdown of the negotiations.

Does anybody have anything else? If not, we here at the Board wish you well on March 10. Bye.

END OF SESSION